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E.O. 12958: DECL: 04/25/2016  
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SUBJECT: PUNTA COLONET PORT AND RAILROAD PROJECT LOSING  
INTENSITY (C-TN5-0533)

REF: 05 STATE 224328

Classified By: MINISTER COUNSELOR FOR ECONOMIC AFFAIRS  
JAMES T. HEG FOR REASONS 1.4 (B) AND (D)

¶1. (SBU) Summary: Dep Econcouns and Econoff met February 17 with Union Pacific Railroad's Director General for Mexico Juan Manuel Carreon to discuss the Punta Colonet port development project in Baja California, Mexico. Carreon believes Union Pacific and partner, Hutchison Port Holdings, a Hong Kong Chinese port company, may have to set aside plans to begin construction of a new port and rail line to the U.S. and pitch the project to the next Mexican administration. End Summary.

¶2. (C) Dep Econcouns and Econoff met with Union Pacific's Vice President for Mexico Juan Manuel Carreon February 17 to discuss a proposed project to construct a new port in Punta Colonet, near Ensenada in Baja California and a new rail link to Yuma, Arizona. Carreon explained that the Punta Colonet project idea has been floating around since the Mexican railroads privatized in the early 1990s and Union Pacific (UP) bought part of Ferrovía Mexicana. UP teamed up with Hutchison Port Holdings (HPH), a Hong Kong company at that time to develop the idea for a new Port in Baja California, close enough to the U.S.-Mexico border for incoming cargo to travel by rail to the U.S. According to their plan, HPH would be in charge of the port and UP would be responsible for the rail yard and transportation to the U.S., including a new border crossing in Yuma, Arizona. Carreon said that 100 percent of the incoming cargo would be shipped up to U.S. by rail. Since the California ports of Long Beach and Los Angeles are currently oversaturated, UP believes this would be a viable and affordable alternative for shippers to bring goods from Asia into the U.S.

¶3. (C) Carreon said both companies were initially working with the State of Baja California and its governor to implement the project. Since Mexican federal law regulates port concessions and requires a bid process, state politicians apparently thought they could pass state laws that would allow both companies to bypass the bid and concession processes. Carreon didn't really convey why the plan fell through, but said they have been working with the Secretariat of Communications and Transport (SCT) and the

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state of Baja California to continue the project. Carreon stressed that despite SCT claims, SCT is not funding the projects nor were they involved in any of the planning. UP would be responsible for laying down 180 miles of double track. The port itself would have 20 berths.

¶4. (C) Carreon said UP will need USG support for their project, specifically a CBP preclearance facility at the port in order to avoid hold-ups at the border. Carreon said the

cargo would also be safer coming into Punta Colonet because it will be a more modern port.

15. (C) Carreon said they are working closely with the consulting firm Public Strategies to gain momentum for the project. However, he said they continue to be confronted with problems. He claimed that anti-trust laws that prohibit port companies from bidding for concessions at more than one port on each coast are being misinterpreted. In this case, he argued, the "market" is different so the Punta Colonet project shouldn't be categorized with other Hutchison Port Holdings concessions on the West Coast. In addition, Carreon said that while UP is aware that business and investment processes move faster and more smoothly when Mexican partners are included, HPH has refused to partner with any Mexican firm on the project.

16. (C) Carreon insisted that all the proper environmental surveys have been completed (evidently by HPH) and said that they found no harmful effects on the environment. However, the SCT, the Mexican Navy, and the Secretariat of the Environment were quoted in a February 2006 report as saying they were just completing their topohydrographical studies. (No such study has been released to date.) After concluding these studies, the agencies plan to conduct an overall feasibility study. (The GOM also said it was in charge of the port design.) In addition, Vida Ensenadense, an Ensenada citizens group, which wants to see the Punta Colonet project go forward and fought expansion of the Ensenada Port, has asked the GOM to develop a master plan and develop the legal framework to set aside land for the development of the port and rail line. The government and businesses will be required to negotiate for right of way on ejido (ie. collectively owned) land for the rail line.

17. (C) UP and HPH believe it will take seven or eight years

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to complete the primary phase of the project. Carreon is doubtful that they can negotiate a deal with the SCT before a new administration takes office. He said several SCT officials believe it can happen but Carreon is afraid the project could end up caught in election-related political maneuvering. He believes the project is vulnerable to criticism from members of the Mexican Congress because Congress made a recommendation in the 1990s during the rail privatization that no foreign ownership should be allowed in railroads in the Baja Peninsula.

18. (C) Marisa Walker, the Executive Director of CANAMEX Corridor and Cyberport Project, a joint venture by the states of Nevada, Idaho, Utah, and Montana to develop a transportation, communication, and commercial corridor from Mexico through the U.S. to Canada, confirmed the challenges of implementing the Punta Colonet Project in a phone conversation with Econoff on April 25. Walker's team has been working closely with HPH and UP because the port project will help develop the southern tier of the corridor including a new port of entry at Yuma. She said that Secretary Cerisola of SCT is now considering debundling the project and may issue regulations for the concession that would favor HPH and not UP. Walker added that HPH is trying to convince the Cerisola that the feasibility of the project is dependent on UP's participation. She said HPH and UP are hoping the Secretary of Economy will step in and encourage SCT and the

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President's office to consider a regulatory/concessions framework that will favor both companies. She did clarify that they understand the bid process will be open to other companies but that UP and HPH will probably be in a more favorable financial and technical position.

19. (C) Comment: Clearly UP and HPH would like to circumvent the Federal Mexican port concession regulations and avoid a formal tender process. But while UP and HPH see this as

their project, the GOM sees it as a large infrastructure hub, under the SCT's coordination, for multimodal transportation, with potential for an airport, as well as a service hub that includes and energy plant.

¶10. (C) It is doubtful that the project will be approved by the current administration. Although Embassy has been informed that several SCT officials have traveled to China and have favored HPH in past disputes involving American companies, Mexican companies may be apprehensive about permitting a primarily private foreign-funded and operated project of this magnitude to occur. The project is also dependent upon the next President. A nationalist could decide to heed Congress' advice regarding foreign investment in Baja. Another could favor the local population if a dispute over land use were to arise. Embassy's Customs and Border Protection (CBP) Office recently informed Econoff that UP has never approached their office at the local level to inquire or discuss the potential for a pre-clearance cargo facility in Punta Colonet. Without a CBP pledge to establish a pre-clearance cargo facility to clear the U.S. bound containers, costs will remain high and the price of goods would likely be unable to compete with those arriving directly into U.S. ports. Post will continue to follow the issue and report any new developments.

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